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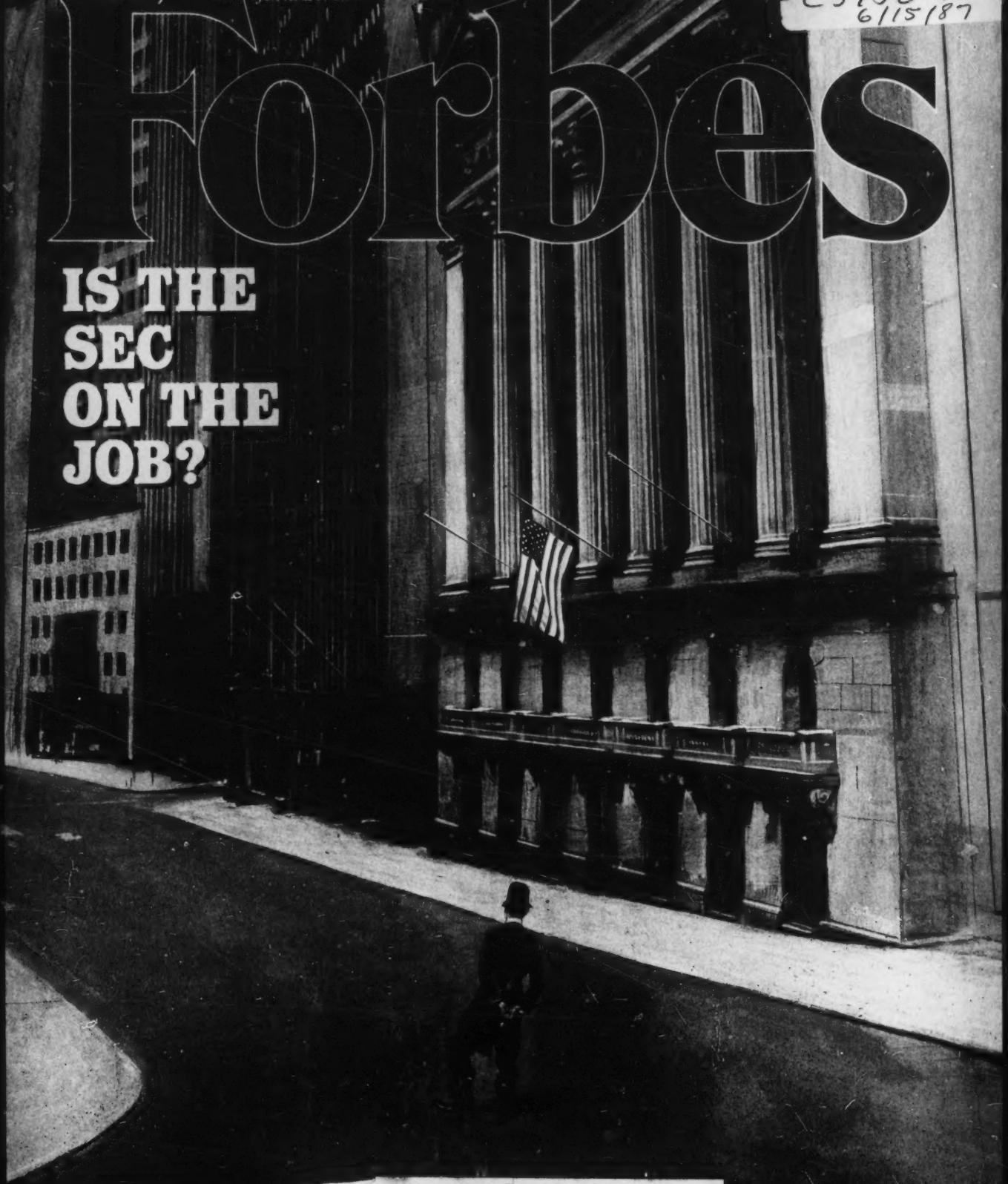
Forbes

IS THE SEC ON THE JOB?



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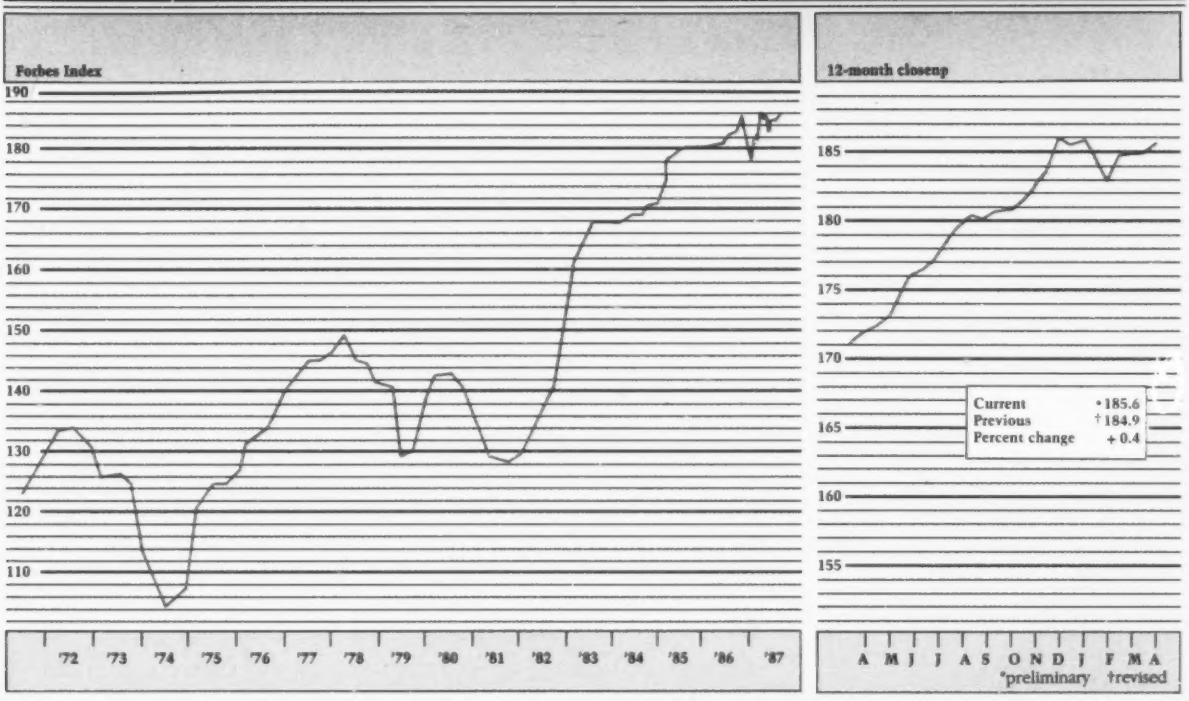
The Forbes Index



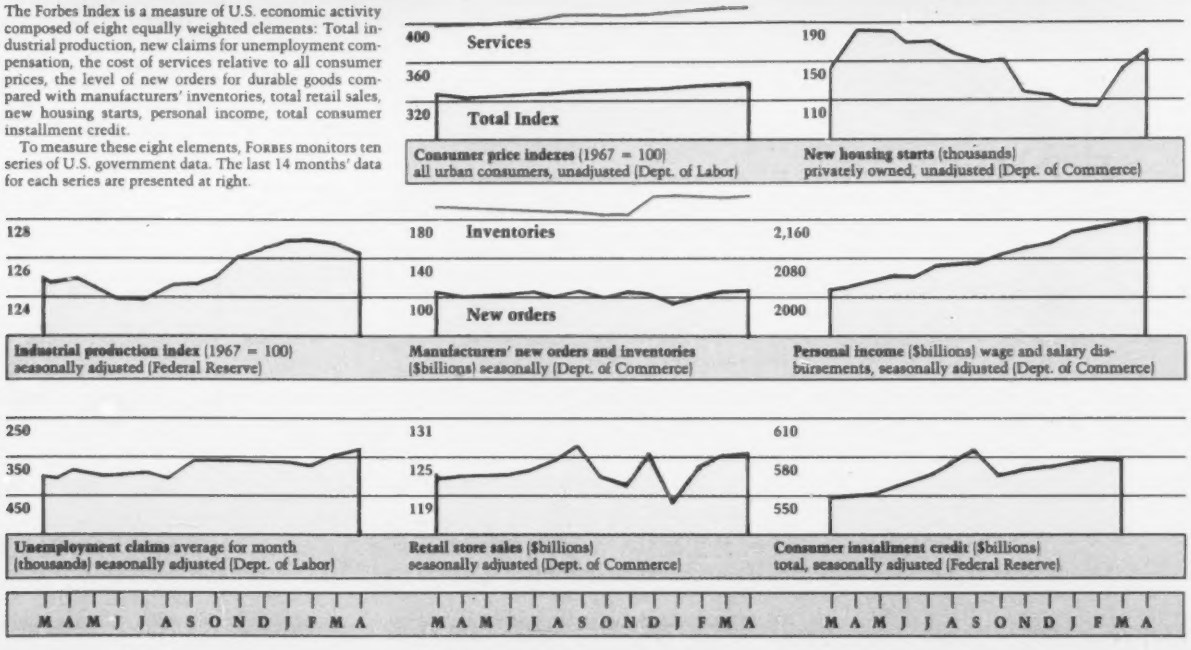
Orders to fill. Preliminary data show the Forbes Index with a 0.4% gain in April, which leaves the Index just 0.2% off its September 1986 alltime high. The economy is getting support from several areas. On the manufacturing front there was a 3.3% jump in the ratio of manufacturers' new orders for durable goods (three months to April) to inventories (April). After seasonal adjustment new orders for durable goods in April were $10.7 billion higher than they were in January. A 0.3% rise in personal income in April also helped push up the Forbes Index.

Despite a 0.1% slip from March to April in the ratio of the cost of services to the total Consumer Price Index (used to calculate the Forbes Index), the cost of living is going up. The overall CPI jumped 0.5% in April.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
Services
360
320
Total Index
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
128
126
124
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180
Inventories
140
100
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
2,160
2080
2000
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
131
125
119
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
610
580
550
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
M A M J J A S O N D J F M A
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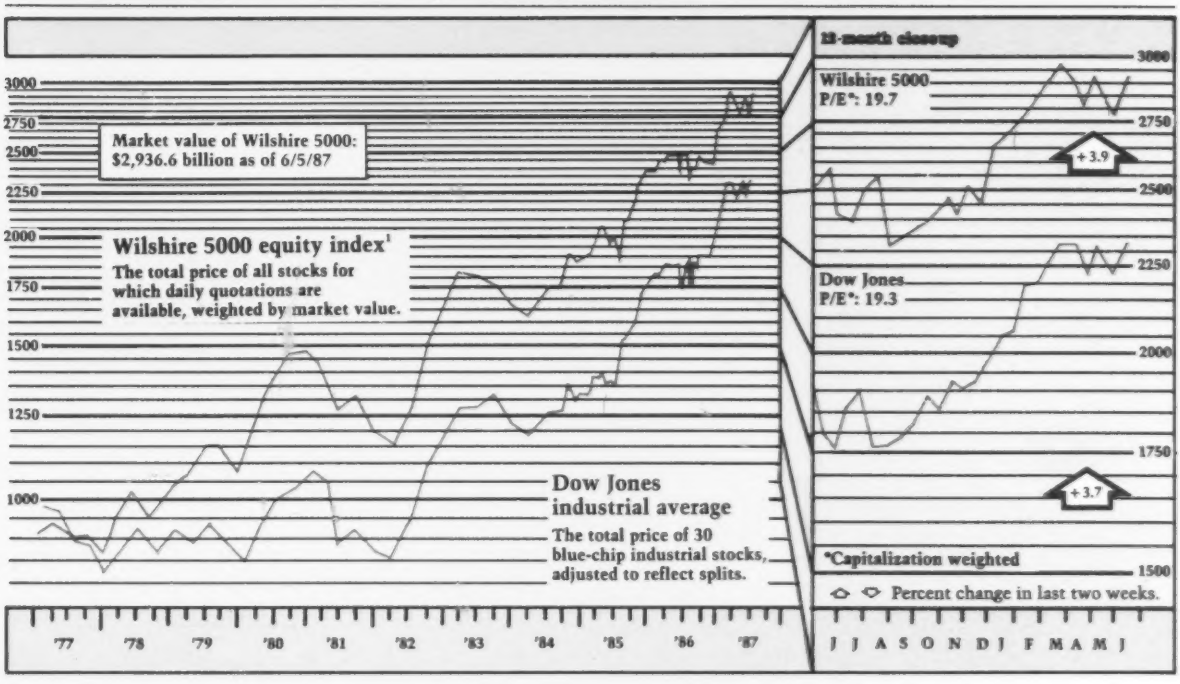
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Big stocks were on the mend over the last two weeks. Average NYSE trading volume was only 1.37 million shares during the last two weeks, but the NYSE posted a 4% advance. That was enough to compensate for the sharp decline in stock prices in mid-May and leave the average Big Board issue unchanged over the last four weeks. The Dow gained 3.7% over the recent two-week period and finished the four-week stretch with a modest 0.2% increase. The Wilshire index, which now measures nearly 6,000 issues, rose 3.9% during the last two weeks. But the influence of Amex and Nasdaq stocks, which made smaller recoveries over the last two weeks, left the Wilshire index with a small loss for the last four weeks.

The rebound in prices pushed up price-to-earnings multiples. In two weeks the P/Es on the Dow, The Forbes Sales 500 and the Wilshire index all rose around one point. The Wilshire index now sells at 19.7 times latest 12-month earnings while the Dow multiple is 19.3.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–0.2	0.2	0.2	0.0	–1.4	–1.3
in last 52 weeks	15.1	15.4	23.3	17.4	17.5	4.4

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	0.2	1.1	1.7	–0.8	–0.6	–1.2	–0.9	0.1	0.7	–0.2	0.3	0.9
in last 52 weeks	17.1	34.0	50.8	21.0	12.5	9.3	7.5	39.6	50.7	14.6	14.1	23.3

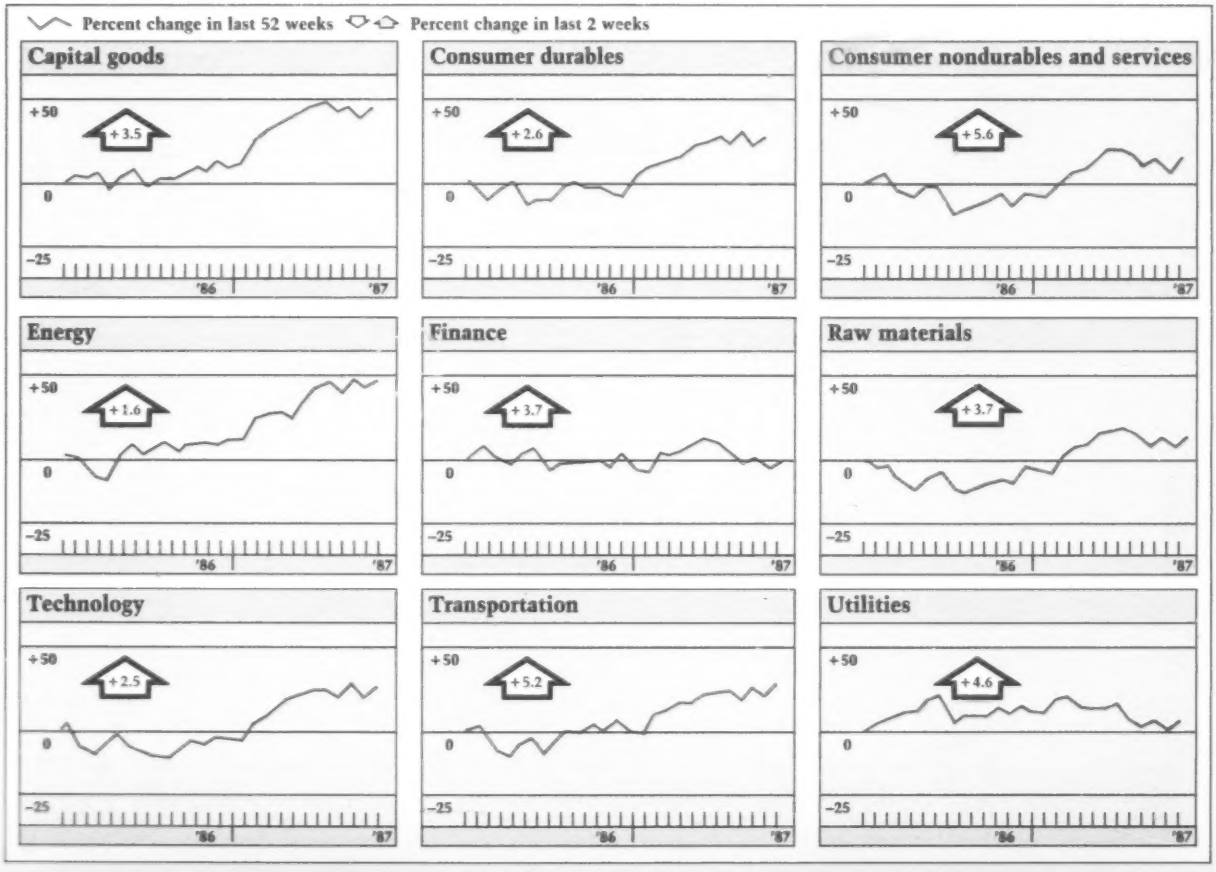
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/5/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where the Action Is

Defensive stocks were back in favor. Over the last 52 weeks consumer nondurables have done little more than pace the market. Over the recent two- and four-week periods, however, the group outperformed all other sectors. Leading this group were Southland and Carson Pirie Scott, both of which rebounded on news of sharply higher earnings. Another defensive group, utilities, posted the third-best performance over the two-week stretch, a gain of 4.6%; Portland General was up 12%. With a 5.2% increase over the last two weeks, transportation stocks had the second-best performance. But much of the increase in this often volatile sector was the result of a 26% gain for Allegis, which has been in the news as a restructuring or takeover candidate.



What the Analysts Think

Wall Street remains optimistic about energy, raw materials, consumer durables and consumer nondurables. For the second week in a row security analysts raised their 1987 earnings estimates for these sectors. Leading the pack was energy, where estimates increased 1.7%. The oil stocks now sell at 18.2 times their 1987 forecast.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.52	18.4
1987 estimates	3.34	13.9
1988 estimates	3.92	11.9

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Energy	$2.58	18.2	1.68%	2.17%
2	Raw materials	2.35	15.9	0.82	1.59
3	Consumer durables	3.75	13.2	0.40	8.63
4	Consumer nondurables	2.41	17.1	0.17	0.48
5	Technology	2.62	16.9	-0.07	-3.68
6	Utilities	2.67	10.1	-0.17	-0.23
7	Transportation	2.22	15.5	-0.49	-1.42
8	Finance	3.40	9.3	-1.13	-1.60
9	Capital goods	2.11	19.2	-1.39	-1.86

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 6/5/87. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

Statistical Spotlight

The best way to invest in new savings and loans may be to follow local depositors rather than Wall Street.

Money in the bank

By Zoran Lazarevic

SAVINGS AND LOANS have been converting from mutual to stock ownership at an extraordinary rate. The FORBES New Issues Database turns up 115 thrifts that went public in 1986. That's more initial public offerings than for any other industry.

Those thrift issues, as it happens, were good buys, having outperformed the Standard & Poor's thrift industry stock index by 30% on average since coming out. This thrift index, in turn, was beating the overall market until interest rates turned up in March.

But which characteristics went with the best returns? Is there a pattern? We studied the market performance of the 1986 issues with the help of Adams Cohen Securities Inc., an investment banker for the thrift industry. Robert Adams, the firm's cofounder and managing director, believes in riding on insiders' coattails. The insiders in question are depositors at a mutual institution, who by law must have first crack at subscribing to the stock. "In general, the higher the subscription rate by the thrift's customers, the loftier the stock performance," he says.

That phenomenon is most apparent in the conversions where at least 70% of the stock was grabbed by insiders. Among those, each 10 percentage points of added insider subscription was associated with an improvement of about 11% in market performance. Among conversions with less than 70% insider participation, however, the degree of participation didn't seem to matter.

In short, if the offering is so popular that most of the stock is snapped up by depositors, then the stock is a buy if you can get it near the original offering price. Indeed, some crafty investors try to get in on the good deals by depositing money at thrifts that are considered prospects for conversion.

We\also ran a test of stock performance against the book-to-price ratio. The result will disappoint fans of value investing. There was next to no correlation between book value and subsequent performance.

The table below lists 100%-subscribed thrifts that went public this year. Of the 13, some have moved to big premiums over offering price and may be no bargains now.

"Tangible book value" is book value less intangibles such as goodwill, the excess paid over book value for an acquired company. "Scheduled items" are delinquent loans. The industry average ratio of scheduled items to total assets is 2.4%. ■

Bankers' dozen

These 13 thrifts converted to stock ownership this year, and all were so popular with depositors that outsiders could get stock only in the aftermarket. High depositor participation has been associated with strong stock performance. Some of these, however, have already moved a good ways since the offering.

Company/location	Price offer	Price as of 6/1/87	Price % change	Tangible book value* total ($mil)	Tangible book value* per share	Total assets ($mil)	Scheduled items† to assets
Abraham Lincoln FSB/Dresher, PA	$12.00	$13.50	13%	$11.7	$19.66	$133	1.39%
Anchor Savings/Northport, NY	11.50	10.25	–11	–305.1	–19.91	7,149	0.84
Bristol Federal/Bristol, CT	11.50	12.25	7	20.3	17.41	177	2.34
Cheshire Financial Corp/Keene, NH	14.38	19.25	34	76.7	19.19	339	0.20
Cottage Savings Assoc/Cincinnati, OH	10.00	15.25	53	15.4	17.82	183	0.50
Deerfield Federal/Deerfield, IL	12.50	17.00	36	26.3	22.86	252	0.93
First Federal S&L/Columbia, TN	10.00	12.00	20	8.9	14.91	75	0.06
Home Federal Savings & Loan/Xenia, OH	10.00	12.13	21	13.9	24.17	225	1.60
New Bedford Institution/New Bedford, MA	14.38	16.00	11	171.9	20.47	693	0.22
Saint Paul Bancorp/Chicago, IL	10.00	11.13	11	185.4	15.68	2,438	0.43
Southstate Bank/Brockton, MA	11.00	10.00	–9	37.3	16.20	228	1.30
Southold Savings/Southold, NY	12.00	12.88	7	97.0	17.64	600	0.25
Working Men's Co-op Bank/Boston, MA	11.50	13.75	20	15.0	13.59	210	0.76

*Book value less goodwill. †Delinquent loans.

Sources: Trident Financial Corp.; Adams Cohen Securities Inc.; Kaplan Smith & Assoc.; FORBES.

NOTE

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